

BUDGET LETTER

SUBJECT: 2008-09 BUDGET POLICY	NUMBER: 07-21
REFERENCES: BL 07-08	DATE ISSUED: August 28, 2007
	SUPERSEDES: BL 06-18

TO: Agency Secretaries
Department Directors
Department Chief Counsels
Department Budget Officers
Department Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Note: Budget Officers are requested to forward a copy of this Budget Letter (BL) to your departments' Chief Counsels.

This Budget Letter (BL) sets forth the Governor's policy direction for his proposed 2008-09 Budget. As a reminder, BL 07-08, issued April 11, 2007, outlines the technical and procedural requirements for preparation of the 2008-09 Governor's Budget.

2008-09 General Fund Deficit Anticipated

Since Governor Schwarzenegger took office in November of 2003, he has continually proposed measures to reduce the imbalance between revenues and expenditures in order to shrink the state's structural deficit. Significant progress has been made but more work is needed. While the 2007-08 Budget is enacted with a projected zero operating deficit in 2007-08 after discounting the transfer to the Budget Stabilization Account for rainy-day purposes, preliminary projections indicate the state will face a General Fund budget operating deficit of \$6.1 billion dollars in 2008-09, absent corrective actions.

The Governor has committed to developing a 2008-09 Budget proposal with a zero operating deficit after discounting the transfer to the Budget Stabilization Account for rainy-day purposes. A separate Budget Letter will be released in the near future providing instructions to all departments regarding approaches to contribute towards this goal.

As for critical BCPs, similar to last year's policy direction, all General Fund proposals intended to expand services to a greater share of the population, increase the level of service to existing populations or that would initiate new services must be accompanied by an offsetting service reduction proposal or some other means to finance the proposal, unless Department of Finance (Finance) has previously agreed to review such proposals. Non-General Fund proposals must be accompanied by similar reductions or financing plans that either live within current revenue streams or revenue enhancements that are supported by the affected entity or industry.

Proposed Statutory Changes

Pursuant to Government Code Section 13308, Finance must provide to the Legislature on or before February 1 of each year, all proposed statutory changes, as prepared by the Legislative Counsel, necessary to implement the Governor's Budget. Therefore, all Budget Change Proposals that require statutory changes also must include a copy of the proposed legislation. Finance will submit any approved language to the Legislative Counsel.

Comprehensive Budget Development Process

The Government Code and the pending Budget Act require the Governor's Budget development process to be as comprehensive as possible, and any subsequent adjustments may only be made to meet critical and unanticipated needs. Further, the January Budget is to include all policy proposals being made for the ensuing fiscal year. Spring Finance Letters, due to the Legislature no later than April 1, should be used only for: (a) updating those proposals made in January, or (b) submitting any new critical proposals that cannot be delayed until the upcoming fall budget process without serious consequences. The May Revision changes to the Governor's Budget are due to the Legislature no later than May 14 and will encompass only traditional enrollment, caseload, and population adjustments and any necessary budget balancing proposals.

Budget Change Proposal Form

Departments are reminded that a Budget Change Proposal (BCP) form has a section that reflects the date the BCP was submitted to the Legislature with space for a Finance supervisor's signature to attest to that submission. The purpose of this information is to improve the tracking of the "final" version of a department's BCP. *This "final" version of a BCP is the only version that should be made public* unless disclosure is approved by the Governor's Office or made pursuant to a court order. Information contained in a BCP is an integral part of the Governor's Budget deliberation process. As such, a BCP is to be treated as a privileged and confidential working paper subject to the Governor's deliberative process privilege until the BCP reflects the Governor's final decision to include the BCP as part of his budget proposal to the Legislature. Disapproved BCPs and unapproved versions of BCPs (i.e., those not released to the Legislature) are to be treated as working papers subject to the Governor's privilege, and are not to be released except when that privilege is waived by the Governor's Office or pursuant to a court order. Questions about requests for confidential budget documents under the Public Records Act or litigation discovery requests seeking confidential budget documents should be directed to department legal staff, and, if necessary, by department legal staff to Finance legal staff.

Departments must use the latest form for submittal of BCPs with the 2008-09 Governor's Budget. The BCP form can be found on the Finance public website:
http://www.dof.ca.gov/Budgeting/Forms/Budget_Forms.asp

If you have any questions, please contact your Finance budget analyst.

/s/ Michael C. Genest

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Director